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C O N F I D E N T I A L COLOMBO 1270

MANILA PASS SECRETARY SIMON'S PARTY

EO 11652: GDS

TAGS: OVIP (SIMON, WILLIAM E.), PFOR, CE

SUBJ: TREASURY SECRETARY SIMON'S MEETING WITH PRIME MINISTER

FROM SECRETARY SIMON

RQQ. SUMMARY: ON APRIL 21 I HAD CANDID, HIGHLY SATISFACTORY MEETING WITH PRIME MINISTER BANDARANAIKE OF SRI LANKA. WE COVERED BROAD RANGE OF INTERNATIONAL AND DOMESTIC ECONOMIC AND POLITICAL ISSUES. THERE WERE NO SUBSTANTIVE SURPRISES. SHE SEVERAL TIMES EXPRESSED WARM APPRECIATION FOR AMERICAN ASSISTANCE.

I WAS MOST IMPRESSED WITH HER INTEREST AND GRASP OF VARIETY OF TOPICS. IN RECOGNITION OF SRI LANKA'S GROWING INTERNATIONAL ROLE AS SEPT 1976 NON-ALIGNED CONFERENCE APPROACHES, I BELIEVE US WOULD DO WELL TO CBSTINUE TO DOMONSTRATE STRONG INTEREST IN HER STYLE OF MODERATE LEADERSHIP AND TO MAINTAIN SIGNIFICANT AID LEVEL TO SRI LANKA. END SUMMARY.

2. ON APRIL 21, I HAD UNUSUALLY FORTHCOMING, WIDE-RANGING, ONE HOUR TWENTY-MINUTES MEETING ALONE WITH PRIME MINISTER
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BANDARANAIKE. I EXTENDED PRESIDENT FORD'S PERSONAL REGARDS

AND EXPRESSED HIS ADMINISTRATION'S STRONG DESIRE FOR CONTINUED GOOD RELATIONS. I HOPED MY VISIT WOULD BE SEEN AS REFLECTION OF FORD ADMINISTRATION'S INTEREST IN SRILANKA AT THIS TIME OF EXTREME ECONOMIC ADVERSITY. THERE WERE NO SIGNIFICANT OUTSTANDING BILATERAL ISSUES AND I WAS IN SRI LANKA AND IN SOUTH ASIA PRIMARILY TO OBSERVE AND TO LEARN.

3. SHE RESPONDED BY EXPRESSING APPRECIATION FOR VISIT AND BY THANKING US FOR RECENT STRONG SUPPORT IN FORM OF FOOD (100,000 TONS WHEAT FLOUR) AND AGRICULTURAL DEVELOPMENT (\$8 MILLION FERTILIZER LOAN) ASSISTANCE. I SAID FORD ADMINISTRATION WAS PLEASED THAT IN FY 1975 IT HAD PROVIDED HIGHEST LEVEL OF AMERICAN AID TO SRI LANKA IN ANY SINGLE YEAR. PRIME MINISTER WAS REPEATEDLY APPRECIATIVE OF US AID DURING CONVERSATION. SHE SAID SRI LANKA WAS NOT BEGGAR NATION AND WANTED TO MAKE ITS OWN WAY. SUBSTANTIAL ASSISTANCE, HOWEVER, WAS ESSENTIAL THROUGH PRESENT VERY DIFFICULT ECONOMIC PERIOD. SHE MADE NO SPECIFIC REQUEST FOR ADDITIONAL ASSISTANCE.

4. AFTER RECALLING HER WARM RELATIONS WITH PRESIDENT NIXON, SHE SAID SHE HAD READ GREAT DEAL ABOUT PRESIDENT FORD AND WOULD VERY MUCH LIKE TO MEET HIM. I SAID I HOPED THAT COULD BE ARRANGED, BUT EXTENDED NO EXPLICIT INVITATION.

5. IN TERMS OF SRI LANKA'S CONTINUALLY DECLINING TERMS OF TRADE, SHE SUMMARIZED POWERFUL ADVERSE IMPACT OF LAST TWO YEARS WORLD ECONOMIC CONDITIONS. SHE EXPRESSED HOPE THAT WAYS COULD BE FOUND TO STABILIZE PRICES FOR SRI LANKA'S PRIMARY EXPORT PRODUCTS, ESPECIALLY TEA.

6. REFERRING TO OUR CURRENT PROJECTION, AND TO CONSENSUS I HAD OBSERVED IN DISCUSSION WITH OECD ECONOMIC MINISTERS, I REVIEWED IMPROVING WORLD AND AMERICAN ECONOMIC OUTLOOK BUT MENTIONED DANGER OF RENEWED INFLATION. CONCERNING SRI LANKA'S OUTLOOK, I EXPRESSED PLEASURE OVER ENCOURAGING REPORTS OF SRI LANKA'S OFFSHORE OIL POTENTIAL AND MENTIONED AN AMERICAN FIRM'S INTEREST IN RECENT WORLDWIDE CALL FOR

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DRILLING SERVICE CONTRACT BIDS.

7. ON ISSUE OF FINDING LONGER TERM SOLUTIONS TO BALANCE OF PAYMENTS FINANCING PROBLEMS OF MOST SERIOUSLY AFFECTED (MSA) DEVELOPING COUNTRIES, I URGED THAT SRI LANKA CONSIDER CAREFULLY AND SYMPHETICALLY PROPOSED TRUST FUND IN ASSOCIATION WITH IMF. SHE WAS KEENLY INTERESTED.

8. WE DISCUSSED SRI LANKA'S LEADING ECONOMIC PROBLEM: FOOD. I MENTIONED FISCAL BURDEN, PRICE DISTORTIONS, AND PRODUCTION DISINCENTIVES THAT ARISE FROM HEAVILY SUBSIDIZED CONSUMPTION. SHE ACKNOWLEDGED THIS WAS SERIOUS DIFFICULTY FOR SRI LANKA BUT POINTED OUT POLITICAL RISKS OF TOUGH ECONOMIC DECISIONS. I SAID WE FACED SAME DILEMMA.

9. ON INTERNATIONAL POLITICAL ISSUES, PRIME MINISTER SAID SRI LANKA WILL CONTINUE CAREFULLY BALANCED APPROACH TO LARGE NATIONS, SPECIFICALLY MENTIONING SOVIET UNION, PRC, INDIA, AND PAKISTAN. SHE DID NOT RAISE INDIAN OCEAN PEACE ZONE OR DIEGO GARCIA. I CONGRATULATED HER ON SRI LANKA'S HOSTING OF 1976 NON-ALIGNED CONFERENCE. SHE SAID SHE WAS LOOKING FORWARD TO IT AND GSL WAS ACTIVELY PREPARING FOR THAT EVENT. SHE BELIEVES SUMMIT WILL STIMULATE SIGNIFICANT ECONOMIC BENEFITS TO SRI LANKA.

10. SHE TOUCHED BRIEFLY ON VIET-NAM, EXPRESSING SADNESS OVER HUMAN TRAGEDY AND NEED FOR MUCH INCREASED HUMANITARIAN AID.

11. IN DETAILED DISCUSSION ABOUT NATIONAL POLITICAL SCENE, PRIME MINISTER SAID 1971 INSURRECTION WAS EXTREMELY SERIOUS THREAT TO HER GOVERNMENT AND TO GENERAL POLITICAL STABILITY. SHE EXPRESSED DEEP APPRECIATION FOR RAPID, SUBSTANTIAL AMERICAN ASSISTANCE IN THAT CRISIS. I SAID THAT WE GREATLY ADMIRE HER COURAGE AND LEADERSHIP AT THAT TIME. SHE ALSO TALKED AT SOME LENGTH ABOUT POLITICAL PHILOSOPHY OF HER LATE HUSBAND AS PRIME MINISTER AND INCREASINGLY PROMINENT POLITICAL ROLE OF HER CHILDREN. SHE CLEARLY SEES HER FAMILY AS IMPORTANT ELEMENT IN NATION'S POLITICAL FUTURE.

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12. REFERRING AGAIN TO HIGH US AID LEVEL THIS YEAR (\$35.5 MILLION), I SAID THAT ALTHOUGH CONGRESS EXAMINED ASSISTANCE PROPOSALS MORE CLOSELY EACH YEAR, US WAS COMMITTED TO ASSISTING NATIONS WHICH HELP THEMSELVES. I SAID, HOWEVER, THAT SRI LANKA-US TIES SHOULD NOT BE BASED ON AID ALONE. OUR MUTUAL GOAL SHOULD BE DEVELOPMENT OF LONG-TERM COMPREHENSIVE RELATIONSHIP THROUGH WHICH WE CAN DISCUSS ANY ISSUE OF MUTUAL INTEREST CANDIDLY AND CONSTRUCTIVELY.

13. COMMENT: THIS WAS PERSONALLY VERY SATISFYING MEETING. PRIME MINISTER WAS MOST GRACIOUS, MOST APPRECIATIVE OF AMERICAN INTEREST AND REAL SUPPORT FOR SRI LANKA, AND MOST INTERESTED IN CURRENT AMERICAN VIEW OF DIFFICULT GLOBAL SCENE. IN MY JUDGMENT, PRIME MINISTER AND SRI LANKA

OVER NEXT 18 MONTHS WILL HAVE INCREASINGLY IMPORTANT ROLE
AMONG NON-ALIGNED NATIONS. 1976 NON-ALIGNED SUMMIT COULD
ASSUME MAJOR SIGNIFICANCE IN WORLD POLITICAL DEVELOPMENT
AND PRIME MINISTER WILL HAVE KEY OPPORTUNITY TO PROMOTE
MODERATE CONSTRUCTIVE DELIBERATION --OR TO ACQUIESCE
MEANINGLESS ANTI-WESTERN POLEMICS. I THINK RECENT US
AID AND THIS VISIT FORM GOOD BASIS TO ENCOURAGE PRIME
MINISTER'S STATED INTENTION TO PURSUE FIRST ALTERNATIVE.
WE WILL DO WELL TO CONTINUE OUR AID AT SIGNIFICANT LEVEL
AND TO DEMONSTRATE OUR ONGOING INTEREST IN PRIME MINISTER
BANDARANAIKE'S PRAGMATIC PERSONAL LEADERSHIP AND HER BALANCED
NON-ALIGNMENT.
VAN HOLLEN

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